

Agenda Item No. 4 (d)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

3 March 2021

Report of the Director of Finance & ICT

DERBYSHIRE PENSION FUND SERVICE PLAN

1. Purpose of the Report

To seek approval for Derbyshire Pension Fund's Service Plan for 2021-22, including the annual budget for the year.

2. Information and Analysis

The Service Plan, attached as Appendix 1 sets out:

- The objectives of Derbyshire Pension Fund (the Fund)
- Details of the Pension Fund Team
- Key services of the Fund
- Key achievements in 2020-21
- Review of 2020-21 performance indicators
- Forward plan of Pension Fund procurements to 31 March 2023
- The Fund's medium term priorities
- The 2021-22 budget required to deliver the Fund's services
- 2021-22 key performance indicators

In 2020, a forecast budget was presented to Committee for approval for the first time to improve transparency and to provide assurance regarding the business planning process and the use of the Fund's resources.

The forecast budget requirement for 2020-21 was £32.918m, made up of operational costs of £5.269m and investment management expenses (IMEs) of £27.649m. The current expected outturn for 2020-21 is £33.523m, made up of operational costs of £5.126m and IMEs of £28.398m.

The forecast overspend reflects a £1.497m increase in IME costs, largely driven by a higher level of assets under management (assets under management were, on average, approximately £270m higher than forecast during the year), partially offset by the expectation that property expenses will

be £0.748m lower than forecast and that operational costs will be £0.143m lower than forecast.

Adjusting the 2020-21 budget forecast to take into account the additional costs related to the increase in assets under management, gives a restated 2020-21 forecast of £34.319m. The forecast outturn for 2020/21 of £33.523m is 1.8% above the unadjusted budget forecast, and 2.3% below the adjusted budget forecast.

For 2021-22, a budget of £33.796m is sought to deliver the services of the Pension Fund, made up of operational costs of £5.425m and IME costs of £28.371m; this represents an increase of 0.8% on the forecast outturn for 2020-21.

IMEs are largely ad-valorem in nature (i.e. they relate to the value of assets under management). The forecast IME costs are based on assets under management at 31 January 2021 (£5.581bn) and assumptions in respect of forecast asset class mix and changes. The actual level of assets, and the asset class mix throughout 2021-22, is likely to differ, meaning that actual IMEs will differ compared to budget. The forecast 2021-22 budget will be adjusted to take into account the actual level of AUM and the actual asset class mix when the expected budget outturn is reviewed next year.

3. Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property and prevention of crime and disorder.

4. Officer's Recommendation

That the Committee approves the 2021-22 Service Plan, including the annual budget of £33.796m.

PETER HANDFORD

Director of Finance & ICT

INTRODUCTION

Derbyshire County Council is the administering authority for the Derbyshire Pension Fund (the Fund/Pension Fund); one of 89 regional Local Government Pension Scheme (LGPS) administering authorities in England and Wales. There are over 330 employers in the Fund, including Derbyshire County Council, Derby City Council, all the district and borough councils in Derbyshire, Peak District National Park Authority, Derbyshire Police Authority, Derbyshire Fire Authority, Derby College, Chesterfield College, University of Derby, a host of town and parish councils and a large group of smaller employers via admission agreements. There are currently around 101,000 memberships of Derbyshire Pension Fund; 38,000 memberships in respect of active contributing members who are currently employed by one of the Fund's employers, 32,000 memberships in respect of deferred members who worked for a scheme employer in the past and are entitled to receive a pension from the Fund in the future and 31,000 members in receipt of pension. Key stakeholders of the Fund include: pension fund members; employers and local tax payers.

Pension Fund Objectives

- to ensure sound governance arrangements for the Fund
- to ensure that sufficient assets are available to meet benefit payments
- to deliver a high quality service to scheme members and employers
- to enable employer contribution rates to be kept as constant as possible and at reasonable cost to the taxpayer
- to deliver clear, timely and relevant communications to all stakeholders

Pension Fund Team

The Pension Fund Team, headed by Dawn Kinley, is part of the Finance & ICT Division of Derbyshire County Council's Commissioning, Communities and Policy Department, and is comprised of an Investment Team and a Pension Administration Team. Both teams contribute to the governance of the Pension Fund.

The Investment Team actively manages a proportion of the Fund's investments assets in house, and oversees the external management of the remaining assets. The investment assets are currently valued at £5.6bn (31 January 2021). The Investment Team is comprised of an Investment Manager, an Assistant Fund Manager, a Pension Fund Accountant and 3 Business Services Officers.

The Pension Administration Team manages the day to day activities associated with members of the Fund and their employers and is currently comprised of 4 Team Leaders, 1 Project Lead, 49 Pensions Officers across three levels and 1 Business Services Assistant. In total, the Pension Fund Team is currently made up of 62 staff, with 57 FTE posts. The position of Pension Administration Manager is currently vacant following the retirement of the previous postholder.

Key services include:

- Managing and monitoring the Fund's governance obligations, including supporting the Local Pension Board, formulating and reviewing the Fund's statements, strategies and policies and preparing the Fund's Annual Report.
- Reporting to and providing support to the Pensions and Investments Committee.
- Managing the employer admissions and cessations process.
- Maintaining 101,000 membership records.
- Calculating and arranging payment of pension benefits.
- Managing the Fund's investment assets.
- Managing the transition of investment assets into investment vehicles offered by LGPS Central Ltd (LGPSC).
- Selecting, managing and monitoring the performance of the Fund's other external investment managers.
- Managing the stewardship of the Fund's assets in conjunction with the external custodian.
- Communicating with members and employers (e.g. supporting employing authorities with their responsibilities under LGPS regulations), including maintaining and developing the Fund's website.
- Managing and monitoring costs; seeking value for money and seeking to reduce average costs per member.
- Monitoring and managing the Fund's cash flows.
- Maintaining the Fund's accounting records, including monthly valuations and preparation of supporting control accounts and reconciliations; reconciling and accounting for employee and employer contributions received, and benefits paid out.
- Providing investment settlement services (i.e. processing cash payments and receipts) in respect of the Fund's investment portfolio.

KEY ACHIEVEMENTS IN 2020-21

Key achievements over the last 12 months include:

Governance:

- Continued implementation of the Fund's Covid-19 Business Continuity Plan, ensuring that the critical activities of the Pension Fund continued to be delivered remotely.
- Development of a Pension Fund performance dashboard to monitor the key performance indicators of the Fund.
- Formulation and Committee approval, of an updated Investment Strategy Statement, an inaugural Responsible Investment Framework and an inaugural Climate Strategy following Committee training and consultation with the Fund's stakeholders.
- Formulation and Committee approval of Derbyshire Pension Fund's TCFD (Task Force on Climate-related Financial Disclosures) Report.
- Establishment of a project board to oversee the implementation of a Member Self Service system which will allow members to view certain parts of their pension information, undertake a restricted number of data amendments and to carry out benefit projections on-line.
- Establishment of a project board to oversee the implementation of MHCLG's remedy in respect of the McCloud and Sargeant judgements.
- Formulation and Committee approval of an Exit Credits Policy for the Pension Fund which sets out the Fund's approach to making exit credit determinations.
- Further development of the Fund's Data Management Group to review progress against the Fund's Data Improvement Plan and ensure compliance with GDPR and data security requirements; formulation of enhanced data managements procedures.
- Continued development and implementation of the Fund's Complaints Policy & Procedure to provide assurance to members of the Pension Fund that all complaints will be considered properly and dealt with in a consistent manner.
- Formulation and Committee approval of a Fund Conflicts of Interest Policy to aid good governance, encourage transparency and minimise the risk of any matter prejudicing decision making or management of the Fund.
- Review and update of the Fund's Governance Policy and Compliance Statement.
- Formulation and Committee approval of an Exit Credits Policy for the Pension Fund which sets out the Fund's approach to making exit credit determinations.
- Development and submission of responses to MHCLG consultations on the statutory underpin (McCloud) and the reform of exit payments in local government.

- Formulation and Director of Finance & ICT approval of a Public Sector Exit Payments Cap Interim Policy (exit cap subsequently disapplied by HM Treasury in February 2021).
- Continued development of the Fund's bespoke website, including the addition of further online forms and LGA training videos and improvements to work towards compliance with new legislation on accessibility (WCAG2.1-Web Content Accessibility Guidelines).
- Continuation of significant contribution to the LGPS Central Pool's governance arrangements including leading the Pool's Finance Working Group, and finalising the development of a new Cost Savings Model in collaboration with LGPSC.

Investments:

- Outperformance against the Fund specific benchmark over 1, 3, 5 and 10 years.
- Provision of asset allocation advice and support to the Director of Finance & ICT and the Pensions & Investments Committee.
- Implementation of the Fund's new intermediate Strategic Asset Allocation Benchmark (SAAB).
- Active participation in the development of the LGPS Central offer.
- Continued build of significant commitments to Infrastructure, Private Equity and Multi-Asset Credit.
- Successful sourcing and completion of due diligence on £150m of renewable energy infrastructure fund investments.
- Initial allocation made to Global Sustainable Equities, with the weighting building to around 16% of the portfolio in line with the intermediate SAAB.
- Continued internal management of a proportion of the Fund's investments.

Pension Administration:

- Continued efficient adjustment to remote working; the commitment and flexibility of the team enabling queries to the telephone Pension Helpline and to the online Pension Inbox to be answered throughout the Covid-19 pandemic.
- Participation in soft-telephony trial to extend the ability of staff working remotely to support the Fund's helpline.
- Successful onboarding of around 24 new employers (mostly academies).
- Successful onboarding of 93 employers, representing approximately 52% of the Fund's members, to the i-Connect system which enables employers to automate the submission and validation of their data.
- Continued significant data cleansing exercise and re-evaluation of processes and procedures associated with the implementation of Altair, the Fund's pension administration system.

- Implementation of a fiche back-scanning project to scan all fiche records onto the pension administration system to enhance efficiency and data security.
- Further improvement in the Fund's common and conditional data scores which are reported to the Pensions Regulator.
- Major address tracing exercise undertaken to re-establish contact with 'gone away' members.
- Procurement of an external provider to verify the identity of overseas members using an efficient and secure verification app.
- Publication of active and deferred member newsletters in co-operation with other LGPS pension funds on the Joint Communication Working Group.
- Further development of the Fund's employer database providing a 'one-stop' location for employer information.
- Continued support to all employing authorities with their LGPS responsibilities via regular newsletters and bulletins.
- Continued development of the performance management regime and the performance report to the Pensions and Investments Committee and to the Pension Board.
- Continued collaboration with other LGPS funds including membership of the LGPS Central Administration Group and an LGA Communications Group, in addition to membership of the East Midlands Pension Officers Group.

REVIEW OF 2020-2021 PERFORMANCE INDICATORS

Indicators	Definition and Success Measure	Owner	2020-21 Performance
Investment Performance	Target outperformance against the Fund's Strategic Asset Allocation Benchmark over the long term – performance is measured externally on a quarterly basis and reported to the Pensions and Investments Committee on a quarterly basis.	DKK/NS	The Fund outperformed its Strategic Asset Allocation Benchmark (SAAB) over 1, 3, 5 and 10 years to 31 December 2020.
i-Connect	Achieve onboarding of employers representing 70% of the membership by 31 March 2021.	DKK/EW/SW	By mid-February 2021, the Fund had successfully onboarded employers representing 52% of the membership. It is expected that this number will rise to 60% by the end of March 2021. Engagement with a number of employers has been delayed during the Covid 19 pandemic as employers were subject to competing priorities.
Member Self Service (MSS)	Achieve registration of 15% of active members by 31 March 2021.	DKK/EW/SW	Additional work to enhance the data security of the registration process and carry out due diligence on email security has delayed the implementation of MMS. Active registration is expect to commence in early 2021/22.
Review SAAB & ISS	Review and obtain Committee approval for updated SAAB & ISS.	NS	The SAAB & ISS were reviewed and approved by Committee in November 2020 following consultation with the Fund's stakeholders.
Responsible Investment Strategy & Climate Strategy	Develop and obtain Committee approval for a Responsible Investment Strategy & a Climate Strategy.	DKK/NS	A Responsible Investment Framework and a Climate Strategy were developed for the Fund and approved by Committee in November 2020 following consultation with the Fund's stakeholders.

FORWARD PLAN OF PENSION FUND PROCUREMENTS TO 31 MARCH 2023

Voting Service	Mrch 21
External Investment Advisor	Apr 21
Investment Performance & Cost Monitoring/Benchmarking & Reporting	Apr 21
Macro-Economic Research	Apr 21
Investment Property Performance Measurement	May 21
Portfolio Performance Measurement	Jun 21
Stock Market Data Provider 1	Jun 21
Stock Market Data Provider 2	Jun 21
Sustainable Global Equities Portfolio Managers	Q1 21-22
Tax Advisory Service	Q1 21-22
Property Valuation	Q2/Q3 21-22
Strategic Investment Research	Q2/Q3 21-22
Overseas Existence Service	Nov 21
Address Tracing	Nov 21
Stock Market Index Data Provider	Jan 22
Pension Board Chair	Mar 22
Custodian	Jun 22
Direct Property Manager	Jun 22

MEDIUM TERM PRIORITIES

Priority	Timeline	Owner
Ensure sound governance arrangements for the Fund.		
Continue to review the Fund's governance arrangements, including the Fund's statements, strategies and policies, taking into consideration the emerging expectations from The Pensions Regulator & the Scheme Advisory Board.	Ongoing	DKK
Continue to identify the training requirements of members of the Committee, members of the Pension Board and members of staff and update training plans accordingly.	Ongoing	DKK
Review the structure of the Pension Fund Team to enable it to support an agile, customer focussed operating model and to provide development opportunities which will build the skills and resilience required for the future.	2021/22	DKK
Ensure that sufficient assets are available to meet benefit payments & Enable employer contribution rates to be kept as constant as possible and at a reasonable cost to the taxpayer.		
Continue to develop and implement employer covenant analysis, carrying out another employer health check exercise before the next triennial valuation.	2021/22	DKK/SW
Manage the Fund's investments with the aim of outperforming the Fund specific benchmark over the longer term.	Measured and reported on a quarterly basis – to be assessed annually	DKK/NS
Continue to deliver the Fund's new SSAB on an invested basis.	Ongoing	NS
Deliver the targets included in the Fund's Climate Strategy (to be reviewed in 2023).	End 2025	DKK/NS
Continue to develop a sustainable working relationship with LGPS Central Ltd and the Partner Funds within the Central Pool and ensure, where possible, that the Pool develops products to deliver the Fund's investment strategy.	Ongoing	DKK/NS

Deliver a high quality service to scheme members and employers & Deliver clear, timely and relevant communications to all stakeholders.		
Continue to improve the efficiency of the pension administration service with the support of the new system and develop administration performance targets in line with best practice.	2021/22	DKK/Pension Admin Team Leaders
Complete the roll out of i-Connect the employer automated data submission and validation service to the employing authorities.	2021/22	DKK/EW/SW
Enable digital interaction and communication with members with the development of a member self-service system.	2021/22	DKK/EW/SW
Implement the remedy in respect of the McCloud and Sargeant judgements.	Ongoing	DKK/Pension Admin Team Leaders
Enhance the Fund's employer onboarding and exit processes.	2021/22	SW/RJ
Review the Fund's AVC provision, ensuring it provides an efficient, effective, and value for money service for members.	2021/22	DKK/WS
Develop the provision of online training materials for employers.	Ongoing	SW
Seek feedback on the delivery of the Fund's services to improve the customer experience, utilising the Fund's website and via the formation of a Member Forum.	2021/22	DKK/SW

RESOURCES

Investment management expenses (IMEs) and property expenses, are external investment manager costs incurred in the management of the Fund's assets, and account for the bulk of the Fund's costs, representing around 85% of total costs. IMEs are largely ad-valorem in nature (i.e. they relate to the value of the asset under management (AUM)) and are impacted by changes in the asset allocation mix of the Fund as well as the value of assets under management, making this part of the budget difficult to forecast in advance.

The remaining 15% of the Fund's budget relates to operational costs including: oversight and governance costs; employee costs; system costs; and other non-IME costs (actuarial fees; custody fees; subscriptions; DCC exchequer & treasury management recharges; together with other miscellaneous expenses). Operational costs include LGPS Central Ltd governance, operator and product development charges.

2020-21 Forecast Budget Outturn

In 2020, a forecast budget was presented to Committee for approval for the first time to improve transparency and to provide assurance regarding the business planning process and the use of the Fund's resources.

The forecast budget requirement for 2020-21 was £32.918m, made up of operational costs of £5.269m and IMEs of £27.649m.

The current expected outturn for 2020-21 is £33.523m, made up of operational costs of £5.126m and IMEs of £28.398m. The forecast overspend of £0.605m reflects a £1.497m increase in IME costs, which is largely driven by higher AUM (assets under management were, on average, approximately £270m higher than forecast during the year), partially offset by the expectation that property expenses will be £0.748m lower than forecast and that operational costs will be £0.143m lower than forecast.

Adjusting the forecast 2020-21 budget to take into account the additional costs related to the increase in assets under management, gives a restated 2020-21 forecast of £34.319m. The forecast outturn for 2020-21 of £33.523m is 1.8% above the unadjusted budget forecast, and 2.3% below the adjusted forecast.

2021-22 Budget

In order to deliver the services of the Pension Fund, the forecast budget requirement for 2021-22 is £33.796m, made up of operational costs of £5.425m and IME costs of £28.371m. This represents a 0.8% increase on the 2020-21 forecast outturn, and a decrease of 1.5% on the 2020-21 adjusted budget.

	2020-21 Budget	Adjusted 2020-21 Budget	Forecast 2020-21 Outturn	Forecast 2021-22 Budget	2021-22 Budget v 2020-21 Adj Budget %	2021-22 Budget v 2020-21 Forecast Outturn
	£	£	£	£		
Oversight & Governance	404,500	404,500	360,186	422,580	4.5	17.3
Employee Costs	2,272,811	2,272,811	2,151,667	2,468,000	8.6	14.7
Systems	537,734	537,734	506,946	502,358	(6.6)	(0.9)
LGPS Central Ltd	1,033,000	1,033,000	972,603	1,080,000	4.5	11.0
Other	1,021,046	1,021,046	1,134,436	952,170	(6.7)	16.1
Operational Costs	5,269,091	5,269,091	5,125,838	5,425,108	3.0	5.8
Investment Management Expenses (ex property expenses)	25,938,800	27,339,670	27,435,678	27,090,549	(0.9%)	(1.3)
Property Expenses	1,710,000	1,710,000	961,911	1,280,000	(25.1%)	33.1
Total IMEs	27,648,800	29,049,670	28,397,588	28,370,549	(2.3)	(0.1)
Total	32,917,891	34,318,761	33,523,427	33,795,658	(1.5)	0.8

Oversight & Governance Costs: include professional and legal fees; investment performance management; independent external advisor; and treasury management, together with costs associated with the Pensions & Investments Committee and Pensions Board. A provision for possible Covid-19 related expenditure has been maintained in the 2021-22 budget for prudence.

Employee Costs: relate to the employee costs of the Pension Administration Team, the Investment Team and the Head of Pension Fund. The forecast increase in the 2021-22 budget against the 2020-21 forecast outturn reflects: the impact of

budgeting for vacancies net of overtime payments; changes in pay grades and forecast National Living Wage increases; the full year impact of staff recruited part way through 2020-21; and a provision for the additional staffing resource that is likely to be required to implement the remedy for the McCloud case and to implement the member self-service system.

Systems: includes the costs of the pension administration system (including add-on services) and the investment price and information systems. The budgeted costs for 2021-22 are assumed to be relatively in line with both the 2020-21 budget and the forecast outturn. A provision has been included for system development costs related to the implementation of the McCloud remedy.

LGPS Central Ltd: includes LGPS Central Ltd governance, operator and product development recharges. LGPSC investment management and monitoring costs (IMMC) are included in the Fund's budget under Investment Management Expenses together with forecast LGPSC external manager charges.

Governance costs are split between the Partner Funds on a 1/8th basis and operator and product development recharges are calculated on the level of Partner Fund AUM. The 2021-22 forecast is based on the Fund's forecast share of LGPSC's recently agreed expenditure budget with the following expected post profit mark-up recharges by category: governance £260,000; operator £704,000; and product development £116,000. The forecast IMMC recharge is currently £108,000 before profit mark-up. The actual level of IMMC will be driven by the products and services used by the Fund during the year.

Other Operational Costs: include actuarial fees; custody fees; subscriptions; Derbyshire County Council exchequer & treasury management recharges; together with other miscellaneous expenses. The forecast reduction in the 2021-22 budget against the 2020-21 forecast outturn largely reflects the cost of a one-off fiche digitisation project in 2020-21.

2021-22 KEY PERFORMANCE INDICATORS

Indicators	Definition and Success Measure	Timeline	Owner
Investment Performance	Target outperformance against the Fund's Strategic Asset Allocation Benchmark over the long term – performance is measured externally on a quarterly basis and reported to the Pensions and Investments Committee on a quarterly basis.	Ongoing	DKK/NS
i-Connect	Achieve onboarding of employers representing 95% of the membership by 31 March 2022.	Mrch 22	DKK/EW/SW
Member Self Service	Achieve registration of 15% of active members by 31 March 2022.	Mrch 22	DKK/EW/SW
'Employer Flexibilities' Policy	Develop and obtain Committee approval for an 'Employer Flexibilities' Policy following receipt of guidance from MHCLG and the LGPS Scheme Advisory Board on the implementation of The Local Government Pension Scheme (Amendment) Regulations 2020	Dec 21	DKK/SW
Review the Fund's AVC provision	Review the Fund's provision of AVCs, evaluating whether it provides an efficient, effective and value for money service for members.	Dec 21	DKK/WS